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ABSTRACT

The history of federal student financial aid legislation, 1965-1985, is traced, and problems faced in the mid-1980s, and possible future directions are considered. The Higher Education Act of 1965 was the first explicit federal commitment to equalizing college opportunities for needy students through grants and programs such as Talent Search. Some parts of the Higher Education Act, such as College Work-Study and Upward Bound, originated in the War on Poverty legislation. During the 1960s the emphasis was educational opportunity regardless of one's social or economic origins. The 1972 Amendments to the Higher Education Act expanded support to student aid and created a number of new programs; later aid to middle-income students was enacted. By 1980 the growth era for student aid was over. The traditional federal emphasis on subsidies for low-income students became diluted, and college enrollment rates among low-income and minority groups declined. While Guaranteed Student Loans (GSL) provide relief from the burden of costs, they may replace what families are capable of contributing. Two suggestions are offered: a fundamental change of student loan policy to relieve the demand on the highly subsidized, costly structure of the current GSL; and awarding student aid benefits in return for public and community service. (SW)

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# FEDERAL STUDENT AID AND THE GOAL OF EQUAL OPPORTUNITY: THE RECORD AND THE FUTURE

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Remarks at the 50th Anniversary Symposium of the Indiana Student Financial Aid Association (ISFAA)

by

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Indianapolis, Indiana
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This is an historic occasion. I congratulate ISFAA on its 50th anniversary and congratulate those who organized this day's proceedings.

This seems to be a time for celebrating milestones. Last year the College Board celebrated the 30th anniversary of the founding of the College Scholarship Service (CSS). This year is the 20th anniversary of the Higher Education Act, which was celebrated last month at Southwest Texas State University, President Lyndon Johnson's alma mater and the place where he signed the Higher Education Act back in 1965. It also seems significant that on November 12, 1985, a few days after this annniversary, the U. S. House of Representatives voted a bill amending and reauthorizing the Higher Education Act for the next five years, through 1991. So, there is a run of anniversary commemorations these days and I'm all for it.

The mid-1980s are a time of intense struggle over national priorities and the role of government, a time of questioning and revisionism about social policies and programs of the past. I think we need to take every opportunity we can to revisit the evolution of those policies and to mark some of these milestones, assess what's been accomplished, and perhaps rekindle some of the resolve that I think is needed to tackle the unfinished business ahead.

The unfinished business we are talking about in today's symposium, as in the CSS 30th anniversary and the 20th birthday of the Higher Education Act, is equalizing educational opportunity through student aid. Now, that's an elusive goal, as I think we've discovered in the past two decades, but one, in my view, that's just too much a part of the American promise, too much imbedded in our public values to be crowded off the national agenda, even in the face of a $200 billion federal deficit and a cumulative national debt of $2 trillion.

I believe our assignment today is both retrospective and prospective. Since this is an historic occasion, I am going to indulge in a bit of history. Without belaboring a scenario that is broadly familiar to all of you, I would like in the first part of my remarks, to sketch a version of how we got here from there, how we arrived at the federal commitment to student assistance as we know it today. Then, I'll touch on some of the problems we face in the mid-1980s, not just the budgetary dilemma growing out of Reaganomics, but also some of the structural problems that I think result from the recent legislative history that I'll sketch. I'll close with thoughts on what I see further down the road.

## A Capsule History

First, my capsule history. Democratization of college opportunities can be traced through two centuries of American history, from the land grant college movement and the establishment of state universities to the GI Bill experience, the explosion of enrollments following World War II, and the rapid expansion of community college systems in the past thirty years. Public policy has progressively extended educational opportunity to new groups in society. In the past 20 years, a major current in this policy stream has been student financial aid. Its growth, of course, has been absolutely stunning. In 1963

the federal government invested something short of $200 million in student aid through a fledgling National Defense Student Loan Program and a smattering of graduate fellowships. Today, the federal government generates, either through direct appropriations or loan guarantees, upwards of $14 billion for students in higher education. That's more than a 20-fold increase, even after adjusting for inflation.

This growth, in such a relatively short period of time, is especially remarkable in light of the controversy on the issue of federal aid during the 1950s and early 1960s. Proposals for scholarships to undergraduates, whether based on financial need or academic merit, generated heated debate during the Eisenhower and Kennedy years. Resistance to giving students a "free ride" doomed one such proposal after another in Congress.

Something happened in the mid-1960s. Whether it was the national mood triggered by the Kennedy assassination, the impact of the civil rights movement, the legislative arm-twisting of President Johnson, or all of the above, the 89th Congress (1965-66) presided over the broadest sweep of progressive social legislation in modern times (1965-66). Along with civil rights legislation came large-scale aid to education, including the Higher Education Act of 1965. The Act embodied, for the first time, an explicit federal commitment to equalizing college opportunities for needy students through grants and through programs such as Talent Search, designed to identify and facilitate access for the college-able poor. Colleges and universities, if they wanted to participate in the new Educational Opportunity Grant Program (now SEOG), were required to make "vigorous" efforts to identify and recruit students with exceptional financial need.

The Higher Education Act was sparked by the same impulses that generated the War on Poverty. In fact, some parts of the Higher Education Act, such as College Work-Study and Upward Bound, actually originated in the War on Poverty legislation and were later transferred to the Higher Education Act.

So, with the 1965 legislation, a new dynamic began to shape the federal role in higher education. Earlier federal support for higher education was prompted by various national concerns: fostering a democratic citizenry, sponsoring research in the national interest, meeting perceived manpower shortages in the economy, compensating those who had served the country as in World War II, promoting international understanding, and so on. Military prepardness, of course, was the spark for the National Defense Education Act of 1958. But the 1960s put the spotlight on what was, in effect, a moral imperative: removing barriers to opportunity, assuring that an individual's chances of advancement through education are not limited by one's social or economic origins.

In the late 1960s, appropriations for student aid grew while other forms of federal support, like construction of academic facilities, gradually faded in importance. Then, in 1972, Congress and the Nixon administration converged with separate proposals that resulted in elaborating and greatly expanding the commitment to student assistance. Amendments to the Higher Education Act created Basic Educational Opportunity Grants, introduced as a foundation or floor under all other forms of aid. Now called Pell Grants, this program today provides over $3 billion to nearly 3 million students enrolled in postsecondary education and training.

The 1972 legislation also created the State Student Incentive Grant (SSIG) Program. Several states, like Indiana, long preceded the federal government in loans and/or scholarships to students, but it was the federal stimulus of SSIG that prompted the balance of the states to launch need-based aid programs of their own. During the same period, an increasing number of states also responded to federal incentives to help generate credit financing for students under the Guaranteed Student Loan (GSL) Program.

So, by the mid-1970s, a battery of federal programs was in place, designed to equalize opportunity for higher education, programs generally targeted on low-income students. But pressure began to mount for broadening the base of eligibility, for some kind of response to the so-called middle-income squeeze in financing college costs. Proposals for college tuition tax-credits built a head of steam in Congress and, to ward them off, the Carter administration went along with a legislative package that resulted in the Middle Income Student Assistance Act (MISAA). MISAA liberalized eligibility for Basic Grants and opened subsidized loans to any student regardless of income or need. Shortly thereafter, Congress let the special allowance to banks participating in GSL float with Treasury bill rates, assuring a favorable return for lenders in the program.

The dynamics of expansion and liberalization carried through the Education Amendments of 1980, with Representative Bill Ford leading the way as chairman of the House Subcommittee on Postsecondary Education. Working around the Carter administration and the congressional budget committees, which were trying to rein in federal spending, the congressional authorizing committees engineered changes that liberalized need analysis governing the need-tested aid programs, while shielding the open-ended GSL program from major proposals to curb eligibility and reduce subsidy or otherwise control the ballooning costs of this program.

Thus the current decade began with student aid on a dramatic growth curve and there was bold new authorizing legislation on the books in 1980. The rest of the scenario is so recent and so familiar it hardly bears reciting. The 1980 elections brought to Washington a new administration aggressively determined to shrink the role of government in society. To paraphrase Mark Twain, however, reports of the death of student aid were greatly exaggerated in 1981-82; public and congressional reaction quelled any notion that federal commitments in this area would simply be abandoned. But the growth era in student aid was over. Many provisions of the 1980 reauthorization law were repealed or delayed. Appropriations leveled off abruptly and the purchasing power of student aid began to erode.

Overall, during the past five years, the real value of federal aid (adjusted for inflation) declined about 12 percent. And that is after a 1984 election-year boost in appropriations that helped regain some of the ground lost in 1981-83.

## The Vantage Point of Twenty Years

So there is my thumbnail history of federal student aid legislation, 1965-1985. The vantage point of 20 years offers striking contrasts between

then and now. The goals and politics of federal legislation certainly appear a lot more complicated, at least they do to me, than when the Higher Education Act was passed with such high hopes in the mid-1960s. Vested interests have naturally emerged, creating a kind of gridlock that I think we all at one time or another find frustrating because it seems to block constructive change and adjustment that may be needed. Any significant change produces winners and losers, whether it is in the distribution of dollars among colleges or dividing up loan portfolios among lenders and state agencies that have a stake in the GSL process. The status quo seems to be the political path of least resistance.

I often recall a rhetorical question that Doc Howe, former U. S. Commissioner of Education, asked years ago: "Do institutions serve the needs of students or is it the other way around?" Perhaps all of us involved in the student aid enterprise--and the institutions and organizations we represent--would do well regularly to ask ourselves that question.

Another change over the last two decades is a loss of attention in our public discourse to the problems of the poor. The anti-poverty origins of the 1960s legislation, including aid to education, have largely faded into history. Eligibility for federal student aid subsidies has been stretched up the economic scale and, in my view, there has been a double edge to that development.

On the one hand, broadening eligibility in the post-MISAA period served to popularize the programs and strengthen their political base. No doubt the stronger political foundation helped to protect the programs from what could have been worse cutbacks in the last several years.

On the other hand, the shift has diluted the traditional federal emphasis on subsidies for low-income students. GSL in 1965 was originally designed as a relatively unsubsidized cash-flow credit program for middle-income families. No one in 1965 ever imagined that it would mushroom into the dominant form of aid or run up federal costs that (a) probably cannot be sustained in the long run, and (b) undoubtedly cut into federal support for the other aid programs in the short run. But that is what has happened as a result of the restructuring of GSL in the late 1970s. If you don't think there has been a trade-off, the numbers are striking when you look back at the last seven years. Aid from the Pell Grant and campus-based programs combined declined by 50 percent in real (adjusted-for-inflation) value between 1978 and 1984, whereas the real value of aid to students through GSL almost tripled during the same period. Even though the open-ended borrowing of the post-MISAA period was capped in 1981, one still has to question the necessity of some of the borrowing and the appropriateness of some of the subsidies that are being channelled to students under GSL, especially where it is not a matter of assuring access or choice but only relieving the burden of costs and perhaps replacing what families may be capable of contributing on their own.

H.R. 3700, the reauthorization bill that's making its way through the House of Representatives even today, may bring amendments in the right direction regarding the emphasis on loans and the structure of the GSL program. H.R. 3700 would require a financial need test across the board for all GSL applicants, a change the financial aid community has long supported and I think is overdue. Another requirement in H.R. 3700 would be that

students receive an eligibility determination for Pell Grants before applying for GSL. Such a change may have some effect on relieving unnecessary borrowing by some low-income students under GSL.

We have read and heard a great deal this year about declining college enrollment rates among low-income and minority groups. It seems clear we are losing some ground in equalizing opportunities. The causes are no doubt complex and elusive, but declining federal aid, combined with college costs that are rising much faster than general inflation in the 1980s, certainly has something to do with the problem. Parenthetically I have a hunch that another factor here is a substantial shift of enrollments from the collegiate sector to vocational and proprietary education, especially among low-income and minority groups in recent years. That shift, if it's there, is not reflected in most of the standard data on higher education enrollments.

A final observation on where we are twenty years after the Higher Education Act. It's not surprising at this point in the history of the aid programs, especially given the sizeable social investment they represent, that there is some revisionist thinking and analysis these days on the original objectives of the programs and what's been accomplished. Analysts are turning their minds to the question: Does student aid "work"? Has it measurably advanced the goal for which the programs were originally established--greater equality of educational opportunity? The analysts have been looking at trend data and they tell us the results have been ambiguous.

Lee Hansen, economist from the University of Wisconsin, reports there is no evidence that student aid has had any effect in equalizing enrollment rates. His "before and after" examination of Census data for 1972 and 1980, however, has been widely challenged. My own view is that the Hansen analysis may be partly right: Substantial federal funds, especially since the MISAA expansion of 1978, probably do simply displace what students and families would otherwise invest from their own resources to pay for college. The data, however, are inadequate to support a sweeping conclusion that student aid has failed to make a difference in patterns of student access and choice during the past decade. The jury is still out in this debate.

Other analysts and critics question the traditional rationale underlying student assistance. Chester Finn, for example, wrote a paper for the CSS 30th anniversary saying we should "desanctify" the whole business of student aid. The credibility of need analysis, he argues, was devastated in the period following MISAA, when standards were liberalized arbitrarily and institutions became increasingly involved in price wars and discounting of tuition through student aid. Moreover, he says new goals and values, like the concern for excellence and standards, have entered the public discourse about education, eclipsing the theme of equity that inspired the growth of student aid. In his words, "Student aid should bear no ethical burden, political freight or social obligation."

My response to that is--really!?! I'm not persuaded. Student assistance has always served multiple ends, but certain core principles endure--despite the disorder of the mid-1980s. As I suggested at the outset of this talk, the goal of equalizing educational opportunity remains imbedded in our public values. Specifically, I believe there remains broad public support for awarding the bulk of student aid progressively according to some measure of

family and student financial need. To put it simply, I do not encounter much support for giving aid to those who don't need it. The measurement of need will always be controversial, but my sense is that people by and large accept that distinctions and decisions have to be made and that most of the decisions will and should be based on considerations of financial need.

## What's Ahead for Student Aid

I have sketched the legislative history. I have suggested some of the political and structural problems, and philosophical challenges, we face today. Now I'll briefly turn to the future.

When I was asked to write a paper on the future of student aid a couple of years ago, I found that I kept interspersing prediction and prescription; what I think will happen and what I think ought to happen. Let me try to disentangle the two here.

First, prediction: what's in store for student aid, at least for the short run, might be described as "less of the same." The second half of the 1980s are going to look a lot like the first half of the 1980s: no dismantling of programs (only one program was dismantled in the first half of the 1980s and that was Social Security student benefits), but no growth either. The same programs will remain intact but will continue to lose ground to inflation. There's not likely to be much restructuring or creative policy-making, and hardly any chance of new programs.

That is not a very cheery prospect, but it's hard to avoid such a conclusion as you look at the next several years. There is pervasive terror in Washington about the federal deficits and what they might do to the economy and the country. Yet there seems little prospect of a satisfactory solution anytime soon. Domestic programs are likely to be squeezed harder and harder.

Now, for some prescription, taking a little license and a longer-range view, unfettered by cold political realities. I have two somewhat heretical suggestions, though they are hardly original.

First, I think we need a fundamental revamping of student loan policy, perhaps including some type of national student loan bank, not necessarily to supplant all existing arrangements under GSL but gradually to relieve the demand on the highly subsidized, costly structure of the current GSL.

Loans have an appropriate role in student finance. Not all students are overburdened with debt. Some can well handle what they are borrowing now and perhaps could handle more. The question is: On what terms? At what level of subsidy? The GSL Program has been very successful. It generates over $9 billion annually to pay student costs. But at what expense to the taxpayer? What trade-offs with other forms of aid, as I mentioned earlier? What long-run consequences for the financing of students as future federal obligations mount for current and past GSLs?

The most penetrating critique of the current structure and policy that I have seen is by Michael McPherson in a recent paper for the Brookings Institution. He suggests that the decision in 1965 to operate the GSL program

through private financial institutions was a strategic error and that it has plagued federal loan policy ever since. Basically he says the program was finally made to work by paying everyone to participate: lenders, borrowers, and state agencies. (I said this is going to be heretical, but I can attribute it to Mike McPherson!) He says it's hard to tell where all the federal money is going and whether the level of payments is justified. The program has the appearance of being market-based, but there's really no market test. Banks and state agencies have little incentive to collect on the loans; collection has to be enforced through due diligence legislation. Some students are encouraged by the level of subsidy to borrow more than they need to finance their education, and the rigidity of the structure discourages innovation, as in lengthening repayment periods and introducing variable repayment schemes.

McPherson suggests a version of a national loan bank that would be empowered to borrow at government rates, thus streamlining and centralizing the raising of capital, which would then be lent through the colleges to qualified students. Rates would be set to cover costs, including insurance on defaults. If the rate of interest were to be subsidized to the student during the in-school or repayment period, that would show up as an operating loss to the bank and would have to be covered by appropriations voted by Congress. All decisions about the terms of the loans would be more explicit and more clearly perceived, and the bank would have the latitude to experiment.

Again, I think this merits consideration as something that might be phased in. Perhaps the best prospect for evolving such an entity (a number of earlier proposals from the financial aid community have nudged in this same direction) might be to build on the current National Direct Student Loan (NDSL) program and its direct lending mechanism.

Finally, I suggest we consider the concept of awarding student aid benefits in return for public and community service. Over the years this idea has had a lot of appeal in some military quarters, especially when military recruitment is down. Some military representatives have proposed a comprehensive youth service plan that would involve converting part or all of the civilian student aid programs into benefits that would be conditional on a period of military or other public service. It has been advocated as a way of fostering greater civic concern among young people and a way of meeting national needs, not just in the military but in a variety of civilian volunteer programs.

The latest boost for this idea comes from Frank Newman in his new report "Higher Education and American Resurgence." The chapter on American youth and the ideal of service makes good reading. It perhaps overstates the potential ills of reliance on student loans, but I think he's right that this trend can undercut traditional values.

Budget stringency probably rules out a "civilian GI Bill" on any significant scale any time soon, but I suggest we look carefully at the concept and look for ways to reinforce the value of service and work in the financing of students as we approach the 1990s.

These are my thoughts for the day. Congratulations again to ISFAA and thank you for the opportunity to be part of these proceedings.